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FISCAL IMPACT STATEMENT

LS 6606 **NOTE PREPARED:** Mar 10, 2004
BILL NUMBER: HB 1005 **BILL AMENDED:** Mar 4, 2004

SUBJECT: Property Tax Benefits.

FIRST AUTHOR: Rep. Reske **BILL STATUS:** Enrolled
FIRST SPONSOR: Sen. Kenley

FUNDS AFFECTED: X **GENERAL** **IMPACT:** State & Local
X **DEDICATED**
FEDERAL

Summary of Legislation: *Financing or Refinancing Real Property:* With respect to a residential real property financing or refinancing, this bill requires a closing agent to provide to each customer information on property tax deductions and the homestead credit on a form prescribed by the Department of Local Government Finance (DLGF). The bill imposes a penalty on a closing agent that does not comply. It provides that a closing agent is not liable for any other damages claimed by a customer because of a closing agent's failure to provide the appropriate document to the customer.

Property Tax Information: It provides for additional information about property taxes to be provided with the property tax statement of current and delinquent taxes and special assessments in a pilot program in certain counties in 2005, 2006, and 2007 and statewide in 2007. The bill permits a county to voluntarily provide the additional information about property taxes with property tax statements in 2004. This bill also provides for state reimbursement of expenditures made by a county to provide the additional information, not to exceed a statewide total of $50,000.

Property Tax Replacement Study Commission: It establishes the Property Tax Replacement Study Commission.

Local Government Efficiency and Financing Study Commission: This bill establishes the Local Government Efficiency and Financing Study Commission.

Out-of-State Commercial Broker or Salesperson: This bill provides that an out-of-state commercial broker or salesperson licensed in another state may practice in Indiana without an Indiana license if the out-of-state commercial broker or salesperson meets certain requirements. It provides that a licensed nonresident broker may act as a broker in Indiana if the broker meets certain requirements.

Sales Disclosure Form: The bill provides that the telephone numbers of a buyer and seller on a sales disclosure form filed with the county auditor are confidential.

Title Insurance Qualification for Insurance Producers: This bill specifies a title insurance qualification for insurance producers. It establishes: (1) an exemption from insurance producer licensure for certain individuals; and (2) requirements for (a) prelicensing courses for title insurance producers; and (b) continuing education for limited lines producers who have a title insurance qualification. The bill adds a member to the Insurance Producer Education and Continuing Education Advisory Council.

Property Tax Abatements for Certain Equipment: It authorizes certain counties and municipalities to provide property tax abatements for logistical distribution equipment and information technology equipment installed after June 30, 2004, and before January 1, 2006.

Professional Sports and Convention Development Areas: The bill allows certain cities to adopt a resolution to establish a professional sports and convention development area before January 1, 2005. It allows Gary, Indiana, to designate more than one facility as part of a professional sports and convention development area.

Population Parameters: The bill changes the population parameters for first and second class cities so that reorganization does not change a city's classification.

Effective Date: Upon passage; July 1, 2004.

Explanation of State Expenditures:

Financing or Refinancing Real Property: Before June 30, 2004, the DLGF must prescribe the form to be provided by a closing agent to customers. The DLGF must make the form available to closing agents, county assessors, county auditors, and county treasurers in hard copy and electronic form. This provision will increase administrative expenses for the DLGF. It is presumed that the DLGF will be able to absorb any additional administrative expenses.

The state agency that has administrative jurisdiction over a closing agent must examine closing agents to determine compliance and to impose and collect penalties and enforce these provisions. This provision will increase administrative expenses for the agencies; however, the impact is not expected to be significant.

Property Tax Information: It provides for additional information about property taxes to be provided with the property tax statement of current and delinquent taxes and special assessments in a pilot program in certain counties in 2005, 2006, and 2007 and statewide in 2007. The DLGF must provide an explanation of certain property tax information and appeal procedures to each county treasurer so that the county treasurer can forward the information to taxpayers. This provision should have no fiscal impact on the DLGF. This bill provides for state reimbursement of expenditures made by a county to provide the additional information, not to exceed a statewide total of $50,000.

Property Tax Replacement Study Commission: The bill establishes the Property Tax Replacement Study Commission, consisting of 24 members. The Commission would study the elimination of all or part of the current property tax and it would submit its work to the Legislative Council by November 30, 2004. The Commission would expire on January 1, 2005.

The Commission would be given a budget of approximately $15,000, based on Legislative Council Resolution 03-02. This amount could vary per interim depending on future Council resolutions. The

Commission budget would be paid from funds appropriated to the Legislative Council from the state General Fund to pay for per diem and travel expenses. The Legislative Services Agency will staff the Commission. LSA should be able to absorb additional expenses associated with this provision given its current budget.

Local Government Efficiency and Financing Study Commission: This bill establishes the Local Government Efficiency and Financing Study Commission, consisting of 23 members. The Commission would study:

(1) Local government finance, structure, and service provision methods;
(2) Merger and consolidation of municipal corporations;
(3) Creation of local charter governments;
(4) Restructuring efforts in Allen County and Fort Wayne;
(5) Vanderburgh County's ongoing restructuring study;
(6) Government consolidation in other states; and
(7) Other issues determined by the Commission.

The Commission would submit its work to the Legislative Council by December 1, 2005. The Commission would expire on December 1, 2005.

The Commission would be given a budget of approximately $15,000, based on Legislative Council Resolution 03-02. This amount could vary per interim depending on future Council resolutions. The Commission budget would be paid from funds appropriated to the Legislative Council from the state General Fund to pay for expenses. It is presumed that the Legislative Services Agency would staff the Commission. LSA should be able to absorb additional expenses associated with this provision given its current budget.

Title Insurance Qualification for Insurance Producers: Title insurance companies are currently required to acquire a title line of authority when applying for an insurance producer license. This provision should have no fiscal impact.

The bill adds title insurance requirements for prelicensure and continuing education courses. Developing requirements for prelicensure and continuing education courses are two of the Insurance Producer Education and Continuing Education Advisory Council's main duties. No additional meetings are expected to be required in order to implement this provision of the bill.

This bill also adds one member to the Council, to be recommended by the Indiana Land Title Association. Council members are entitled to per diem and mileage reimbursement. As of January 2004, per diem was $50 and mileage was reimbursed at the rate of $0.28 per mile. The fiscal impact of adding another member to the Council is dependent on the location from which the member will travel. Expenses of administering the Department of Insurance are paid from the General Fund.

Impact Relative to Deductions and Credits. As a result of the proposal, the state could experience an increase in the number of homeowners who apply for and receive property tax deductions and the homestead credit. However since these homeowners are entitled to these deductions and credits under the current statute, there would be no new shift or liability created from any additional taxpayers being informed and claiming these benefits.

Explanation of State Revenues:

Financing or Refinancing Real Property: A closing agent is subject to a civil penalty of $25 for each instance in which the closing agent fails to comply with the requirement to provide information on property tax deductions and homestead credits. The number of times a closing agent will fail to offer the required assistance is indeterminable. Penalties would be deposited into the Property Tax Replacement Fund.

Out-of-State Commercial Broker or Salesperson: This provision allows an out-of-state commercial broker or out-of-state salesperson to perform, without a license, acts related to commercial real estate that would otherwise require an Indiana license. Such a commercial broker or salesperson must meet certain requirements, such as working in cooperation with a broker that is licensed in Indiana. This provision also allows partnerships, corporations, or limited liability companies to obtain a broker license in Indiana if none of their individual brokers are residents of Indiana. This provision could potentially have a fiscal impact on the Professional Licensing Agency if less revenue is generated due to out-of-state commercial brokers or salespersons or nonresident principal brokers not seeking licensure in Indiana.

Background - Currently, a broker license costs $50 and a salesperson license costs $25. An additional fee, that may not exceed $15, may be attached to the license cost for deposit in the Real Estate Recovery Fund. Fees for licenses issued under the Real Estate Commission generated $1M in FY 2003 and $725,000 in FY 2002. As of August 2002, the Real Estate Commission regulated approximately 47,000 broker and salesperson licenses.

Professional Sports and Convention Development Areas (PSCDAs): The bill extends the deadline by which second class cities and the city of Marion may establish a PSCDA. This deadline is extended from July 1, 2003, to January 1, 2005. The bill also repeals current statute that prohibits a PSCDA in Gary from containing more than one facility or containing a facility used by a professional sports franchise for practice or competitive sporting events. (Current statute allows a Gary PSCDA to contain a facility used principally for convention or tourism-related events.) Potentially, new PSCDAs could be created in Gary, Marion, or Richmond containing sports, convention, or other authorized facilities due to this deadline extension. However, the actual number of new PSCDAs due to the deadline extension is indeterminable.

If facilities in Gary, Marion, or Richmond meet the other pertinent requirements for PSCDAs, at least three new areas could be established under this proposal. However, local units would still have to adopt a resolution establishing the PSCDAs. The Budget Committee must also review any resolutions and the Budget Agency must approve them before revenues are diverted. The amount of state revenue which may be captured would still be limited to $5 for each resident of the establishing unit, and any collections in excess of the cap would be realized as normal collections. The table below presents capture limits based on Census 2000 data for potential PSCDAs in Gary, Marion, and Richmond.

State Revenue Caps for Potential PSCDAs
(Capture limit is $5 per resident of the establishing local unit)

Establishing Unit	**Gary**	**Marion**	**Richmond**
Potential Capture Limit	$513,730	$156,600	$195,620

*Based on Census 2000 totals.

Background: Under current law, a Professional Sports and Convention Development Tax Area is a special zone in which certain state and local tax revenues earned in the area are diverted and deposited into a special fund. This fund is dedicated to capital improvement in the development area. Currently, PSCDAs are operated by Marion County, Allen County, Evansville, Huntingburg, and South Bend.

Under current statute a PSCDA may include only facilities owned by a city, a county, a school corporation, a local capital improvement board, a county building authority, a civic center's board of directors in South

Bend and Mishawaka, or the Building Authority in Gary. Except in Allen County and Gary, a PSCDA must contain a professional sports facility. A PSCDA also may include: (1) a facility used principally for convention or tourism-related events serving national or regional markets; (2) an airport; (3) a museum; (4) a zoo; (5) a facility used for public attractions of national significance; (6) a performing arts venue; or a county courthouse registered on the National Register of Historic Places. In addition, current statute prohibits a PSCDA in Gary from containing a professional sports facility or containing more than one facility. The state taxes that may be captured by PSCDAs are the Gross Retail Tax and the Individual Adjusted Gross Income Tax. Except in Marion County, PSCDAs may capture an amount up to $5 for each resident of the establishing unit.

Explanation of Local Expenditures:

Property Tax Information: The bill provides for additional information about property taxes to be provided with the property tax statement of current and delinquent taxes and special assessments in a pilot program in certain counties in 2005, 2006, and 2007 and statewide in 2007. This bill provides for state reimbursement of expenditures made by a county to provide the additional information, not to exceed a statewide total of $50,000.

Counties send an estimated 3.0 M to 3.4 M tax statements annually. Some counties may be able to include the additional information on tax statements that are currently mailed. Some counties may be able to include an additional sheet of information with the current tax bill. Many counties may already be sending tax information to both the mortgage company and the taxpayer. However, because an estimated 50% of statements are sent only to mortgage companies, an unknown number of counties may incur additional costs associated with an additional mailing in cases where the tax statement is currently sent only to the mortgage company.

The legislative body of a county not designated for participation in the pilot program may adopt an ordinance to implement the program. The legislative body must submit a copy of the ordinance to the DLGF, which must monitor the county's implementation as if the county were a participant in the pilot program.

The impact of this proposal is indeterminable, will vary by county, and will depend on current local practices. However, most counties are likely to incur additional printing costs and/or costs associated with computer programming changes. Some counties may also incur additional costs associated with postage. Counties that incur printing or computer programming costs directly related to mailing the required information must submit an itemized statement of the costs to the DLGF in order to obtain reimbursement for costs from the state. County claims must be paid by the Treasurer of State on warrant of the Auditor of State.

Explanation of Local Revenues:

Property Tax Abatements for Certain Equipment: Under current law, new manufacturing equipment and new research & development equipment may qualify for property tax abatements. The abatements are available for up to ten years.

This bill would allow abatements for new “logistical distribution equipment and new “information technology (IT) equipment installed after June 30, 2004, and before January 1, 2006, in economic revitalization areas in Allen, Grant, Huntington, Madison, and Wells Counties.

Logistical distribution equipment would consist of racks, scanners, separators, conveyors, forklifts, moving equipment, packaging equipment, sorting and picking equipment, and software.

IT equipment would include equipment and software used in the fields of information processing, office automation, telecommunication facilities and networks, informatics, network administration, software development, and fiber optics.

If there is an increase in development because of this proposal, the new property would, at some point, be placed on the tax rolls. This could help spread the property tax burden and could possibly reduce some tax rates. However, if one assumes that the investment would be made with or without the abatement, an increase in abatements (ERAs) could also cause a delay of the shift of the property tax burden from all taxpayers to the owners of the new property until the property is placed on the tax rolls. In all cases, the granting of an abatement is a local decision.

Professional Sports and Convention Development Areas: The local taxes that may be captured by PSCDAs are local food and beverage taxes and local option income taxes. However, local food and beverage taxes may not be captured by a PSCDA in Allen County. Thus, new PSCDAs in second class cities would be able to capture local food and beverage tax revenue and COIT, CAGIT, and CEDIT revenue generated by any new PSCDA facilities. The increase in revenue would be directed to the PSCDA instead of other local taxing units as provided under current statute.

State Agencies Affected: Legislative Services Agency; Department of Local Government Finance; Department of Insurance; Insurance Producer Education and Continuing Education Advisory Council; Treasurer of State; Auditor of State;, Professional Licensing Agency; Department of Financial Institutions; and any other state agencies involved in regulating an entity that provides financing or refinancing services.

Local Agencies Affected: Counties; Taxing units in counties providing local homestead credits; second class cities; city of Marion.

Information Sources: 2002 and 2003 County Auditors' Abstracts; County property tax parcel record data; Census Bureau; Local Government Database; Nancy Stassen, Director, Operations Division, DLGF; Dave Bottorff, Legislative Director, Association of Indiana Counties, 317-684-3710; Legislative Council Resolution 03-02; Matt Kimmick, State Budget Agency, (317) 232-5618; *Census 2000*, U. S. Bureau of Census; Maryann Seyfried, Deputy Commissioner, Agency Services Division, Department of Insurance, (317) 234-1138.

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